

CITY OF MEMPHIS, MICHIGAN

**ANNUAL FINANCIAL REPORT
with Supplementary Information**

**FOR THE YEAR ENDED
JUNE 30, 2008**

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



CITY OF MEMPHIS, MICHIGAN

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Memphis, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Memphis, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the basic financial statements of the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Memphis' management. Our responsibility is to express opinions on these financial statements based on our audit.


We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Memphis, Michigan, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2008 on our consideration of the City of Memphis' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7, and schedules of budgetary comparisons on pages 32 through 34 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Memphis' basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedure applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Stewart, Beauvais & Whipple".

Certified Public Accountants

September 3, 2008

OVERVIEW OF THE FINANCIAL STATEMENTS

City of Memphis' 2008 annual report is presented in conformity with the requirements of GASB 34. This annual report consists of four parts – management's discussion and analysis, the basic financial statements, required supplementary information, and other supplemental information, which presents combining statements for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the City's government, reporting the City's operations in more detail than the government-wide statements.

Government-wide Financial Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid (full accrual).

The two government-wide statements report the City's net assets and how they have changed. Net assets, defined as the difference between the City's assets and liabilities, are one way to measure the City's financial health or position.

The government-wide financial statements of the City are divided into two categories:

Governmental activities – most of the City's basic services are included here, such as the police, fire, public works, and general administration. Property taxes, state-shared revenue, and charges for services provide most of the funding.

Business-type activities – the City charges fees to customers to help it cover the costs of certain services it provides. The City's water and sewer system is treated as a business-type activity.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The City Council establishes other funds to control and manage money for particular purposes.

The City has three kinds of funds:

Governmental funds - Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets can readily be converted to cash flow in and out, and the balances left at year end that are available for spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

Proprietary funds - Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term financial information.

Fiduciary funds - The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of assets and liabilities. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

FINANCIAL OVERVIEW (Government-wide financial analysis)

The City has combined total net assets of \$3.4 million. This is an increase of \$150,578 over 2007. Government-type activities comprise \$1.9 million, and business-type activities make up \$1.5 million of the total net assets. In a condensed format, the table below shows net assets as of June 30, 2008 and 2007.

	Governmental Activities		Business-type Activities	
	2008	2007	2008	2007
Assets				
Current assets	\$ 1,103,501	\$ 924,526	\$ 466,526	\$ 440,074
Noncurrent assets	<u>1,048,404</u>	<u>1,026,560</u>	<u>1,629,530</u>	<u>1,678,009</u>
Total assets	<u>2,151,905</u>	<u>1,951,086</u>	<u>2,096,056</u>	<u>2,118,083</u>
Liabilities				
Current liabilities	134,025	60,357	20,872	11,829
Noncurrent liabilities	<u>152,897</u>	<u>108,388</u>	<u>582,683</u>	<u>681,689</u>
Total liabilities	<u>286,922</u>	<u>168,745</u>	<u>603,555</u>	<u>693,518</u>
Net Assets				
Invested in capital assets – Net of related debt	918,149	940,431	1,051,069	999,659
Restricted	476,892	420,400	593	-
Unrestricted	<u>469,942</u>	<u>421,510</u>	<u>440,839</u>	<u>424,906</u>
Total net assets	<u>\$ 1,864,983</u>	<u>\$ 1,782,341</u>	<u>\$ 1,492,501</u>	<u>\$ 1,424,565</u>

The City governmental activities experienced a net change in assets of \$82,642, or 10% of annual expenditures. The business-type activities experienced a net change in assets of \$67,936, or 25% of the annual expenditures.

The following table shows the changes in net assets for 2008 and 2007:

	Governmental Activities		Business-type Activities	
	2008	2007	2008	2007
Revenue				
Program revenue:				
Charges for services	\$ 214,129	\$ 182,059	\$ 328,998	\$ 339,298
Operating grants and contributions	94,146	84,429	-	-
Capital grants and contributions	23,145	22,754	-	-
General revenue:				
Property taxes	406,867	389,936	-	-
State-shared revenue	106,538	111,993	-	-
Unrestricted investment earnings	40,748	39,903	14,410	15,744
Franchise fees and other	7,963	7,491	-	-
Total Revenue	<u>893,536</u>	<u>838,565</u>	<u>343,408</u>	<u>355,042</u>
Program Expenses				
General government	122,115	130,744	-	-
Public safety	414,669	348,456	-	-
Public works	225,892	226,206	-	-
Health and welfare	3,100	3,000	-	-
Recreation and cultural	38,944	30,498	-	-
Interest on debt	6,174	5,555	-	-
Water and sewer	-	-	275,472	309,147
Total Program Expenses	<u>810,894</u>	<u>744,459</u>	<u>275,472</u>	<u>309,147</u>
Changes in net assets before transfers	82,642	94,106	67,936	45,895
Transfers	-	(3,033)	-	3,033
Changes in net assets	<u>\$ 82,642</u>	<u>\$ 91,073</u>	<u>\$ 67,936</u>	<u>\$ 48,928</u>

Governmental Activities

Revenues for governmental activities totaled \$893,536 in 2008. Of this amount \$406,867 was received from taxes, an increase of \$16,931 over 2007. The next largest revenue sources were from charges for services of \$214,129, which was a \$32,070 increase from the prior year and state shared revenue of \$106,538, which slightly decreased from the prior year.

Business-type Activities

The City's business-type activities represent the Water and Sewer Enterprise Fund. The City provides water and sewer services to most, but not all residents. Total revenues were \$343,408, and expenses were \$275,472 for a change in net assets of \$67,936.

FINANCIAL ANALYSIS OF MAJOR CITY FUNDS AND BUDGETS

Governmental Funds

The General Fund ended 2008 with a fund balance of \$476,453, with \$11,216 designated for specific projects. This is an increase of \$52,368 from the prior year.

The City's other major governmental fund, the Major Street Fund, had a fund balance at June 30, 2008 of \$173,067, which was an increase of \$20,244 over 2007.

The budgets were amended throughout the year as deemed necessary, primarily to prevent over expenditure. Significant amendments to the original budget were made to the City Hall and the Community Center Activities to reflect the building improvements completed during the year.

Significant differences in the final budget and actual amounts were as follows:

- Police department expenditures and lease proceeds exceeded budgets, primarily due to the recording of the capital lease of a police vehicle.
- Debt service payments and loan proceeds exceeded budgets due to the recording of the payoff of the old library loan and the issue of the new loan.

Proprietary Fund

As indicated earlier the City only has one proprietary fund, which records the water and sewer operations. Total revenues were \$343,408 and expenses were \$275,472 for a change in net assets of \$67,936.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City had \$2.7 million dollars invested in capital assets for its governmental and business-type activities (net of accumulated depreciation) as of June 30, 2008. The investment in capital assets includes land, land improvements, roads, buildings, machinery and equipment, vehicles and water and sewer lines.

During the year the City added \$127,796 of capital assets, all of which were in the governmental activities. Major improvements for the year included renovations at the Community Center, the Police Garage, a new roof at City Hall, a new police vehicle and radios.

	Governmental Activities		Business-type Activities	
	2008	2007	2008	2007
Land	\$ 38,000	\$ 38,000	\$ 11,355	\$ 11,355
Roads and sidewalks	347,373	347,373	-	-
Building	505,783	437,377	175,106	175,106
Equipment	548,155	525,315	167,499	177,982
Vehicles	467,295	453,935	-	-
Utility System	-	-	2,218,557	2,218,557
Construction in progress	11,540	-	-	-
	1,918,146	1,802,000	2,572,517	2,583,000
Accumulated depreciation	(869,742)	(775,440)	(942,987)	(904,991)
	<u>\$ 1,048,404</u>	<u>\$ 1,026,560</u>	<u>\$ 1,629,530</u>	<u>\$ 1,678,009</u>

Additional information on the City's capital assets can be found in Note 5.

Long-Term Debt

At June 30, 2008 the City has outstanding debt totaling \$130,255 and \$578,461 in the governmental activities and business-type activities, respectively, related to the acquisition of capital assets. This is a decrease of \$55,763 from 2007. During the year the City refinanced the Library loan by borrowing \$116,000 and using the additional proceeds for the improvements noted above. In addition, the City had \$26,864 of compensated absences, \$22,642 in the governmental activities and \$4,222 in the business-type activities.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City of Memphis, similar to most municipalities in the state of Michigan, continues to experience difficult financial times. The City has experienced reductions in state-shared revenues in recent years. While little or no growth has been experienced in revenues, most expenditures continue to grow at the rate of inflation or higher (in the case of health insurance expenditures). The City has responded to this through a reduction of discretionary costs, principally capital outlay, but also including personnel cuts. The City expects this financial trend to continue in the near future.

CONTACTING THE CITY

This financial report is designed to provide a general overview of the City's finances to our residents and other interested parties in understanding the City's financial condition. If you have questions about this report or need additional financial information, please contact the City at (810) 392-2385.

BASIC FINANCIAL STATEMENTS

CITY OF MEMPHIS, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2008

	Governmental Activities	Business Type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 991,590	\$ 385,317	\$ 1,376,907
Receivables	111,911	81,209	193,120
Capital assets (net of accumulated depreciation)			
Assets not being depreciated	49,540	11,355	60,895
Assets being depreciated	998,864	1,618,175	2,617,039
Total Assets	<u>2,151,905</u>	<u>2,096,056</u>	<u>4,247,961</u>
LIABILITIES:			
Payables and accrued liabilities	85,747	17,454	103,201
Accrued interest	4,778	3,418	8,196
Unearned revenue	43,500	-	43,500
Non-current liabilities			
Due within one year	12,288	106,151	118,439
Due in more than one year	140,609	476,532	617,141
Total Liabilities	<u>286,922</u>	<u>603,555</u>	<u>890,477</u>
NET ASSETS:			
Investment in capital assets, net of related liabilities	918,149	1,051,069	1,969,218
Restricted			
Streets	281,841	-	281,841
Acquisition/construction of capital assets	195,051	-	195,051
Debt service	-	593	593
Unrestricted	469,942	440,839	910,781
Total Net Assets	<u>\$ 1,864,983</u>	<u>\$ 1,492,501</u>	<u>\$ 3,357,484</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MEMPHIS, MICHIGAN

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General Government	\$ 122,115	\$ 24,849	\$ 2,660	\$ 1,568
Public Safety	414,669	105,032	7,065	10,729
Public Works	225,892	73,022	81,030	4,500
Health and Welfare	3,100	-	-	-
Recreation and Culture	38,944	11,226	3,391	6,348
Interest on Long Term Debt	6,174	-	-	-
Total governmental activities	810,894	214,129	94,146	23,145
Business type activities - water and sewer	275,472	328,998	-	-
Total	<u>\$ 1,086,366</u>	<u>\$ 543,127</u>	<u>\$ 94,146</u>	<u>\$ 23,145</u>

General revenues:

 Taxes

 State shared revenue

 Franchise fees

 Unrestricted investment income

 Total general revenues and transfers

Change in net assets

Net assets at beginning of year

Net assets at end of year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Change in Net Assets

Primary Government		
Governmental Activities	Business Type Activities	Total
\$(93,038)	\$ -	\$(93,038)
(291,843)	-	(291,843)
(67,340)	-	(67,340)
(3,100)	-	(3,100)
(17,979)	-	(17,979)
(6,174)	-	(6,174)
(479,474)	-	(479,474)
-	53,526	53,526
(479,474)	53,526	(425,948)
406,867	-	406,867
106,538	-	106,538
7,963	-	7,963
40,748	14,410	55,158
562,116	14,410	576,526
82,642	67,936	150,578
1,782,341	1,424,565	3,206,906
\$ 1,864,983	\$ 1,492,501	\$ 3,357,484

CITY OF MEMPHIS, MICHIGAN

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2008

	<u>General</u>	<u>Major Street</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 534,246	\$ 163,626	\$ 293,718	\$ 991,590
Receivables				
Interest and accounts	17,116	-	-	17,116
Due from other governmental units				
Federal/State	36,327	9,650	2,970	48,947
Local	45,848	-	-	45,848
Due from other funds	-	-	7,574	7,574
	<u>633,537</u>	<u>173,276</u>	<u>304,262</u>	<u>1,111,075</u>
Total Assets				
	<u>\$ 633,537</u>	<u>\$ 173,276</u>	<u>\$ 304,262</u>	<u>\$ 1,111,075</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 13,186	\$ -	\$ 225	\$ 13,411
Accrued liabilities	67,815	209	212	68,236
Due to other funds	7,574	-	-	7,574
Deposits payable	4,100	-	-	4,100
Deferred revenue	64,409	-	-	64,409
	<u>157,084</u>	<u>209</u>	<u>437</u>	<u>157,730</u>
Total Liabilities				
	<u>157,084</u>	<u>209</u>	<u>437</u>	<u>157,730</u>
Fund Balances:				
Reserved -				
Capital Projects	-	-	195,051	195,051
Unreserved -				
Designated	11,216	-	-	11,216
Undesignated -				
General Fund	465,237	-	-	465,237
Special Revenue Funds	-	173,067	108,774	281,841
Total Equity	<u>476,453</u>	<u>173,067</u>	<u>303,825</u>	<u>953,345</u>
	<u>476,453</u>	<u>173,067</u>	<u>303,825</u>	<u>953,345</u>
Total Liabilities and Fund Equity	<u>\$ 633,537</u>	<u>\$ 173,276</u>	<u>\$ 304,262</u>	<u>\$ 1,111,075</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MEMPHIS, MICHIGAN

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
ON THE STATEMENT OF NET ASSETS
JUNE 30, 2008**

Fund Balances - total governmental funds		\$	953,345
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
Capital assets			1,918,146
Accumulated depreciation		(	869,742)
Other long term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.			20,909
Long - term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Bonds/notes payable	(	130,255)	
Compensated absences	(	<u>22,642</u>	(152,897)
Accrued interest payable is not included as a liability in the governmental funds			(<u>4,778</u>)
Net Assets of governmental activities		\$	<u><u>1,864,983</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF MEMPHIS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2008

	General	Major Street	Other Governmental Fund	Total Governmental Funds
Revenues:				
Taxes	\$ 406,867	\$ -	\$ -	\$ 406,867
Licenses and permits	2,122	-	-	2,122
Intergovernmental -				
Federal/State	121,242	58,928	22,102	202,272
Local	17,576	-	-	17,576
Charges for services	147,661	-	-	147,661
Fines and forfeits	3,759	-	-	3,759
Interest and rent	52,185	5,707	11,565	69,457
Other	47,757	-	-	47,757
Total Revenues	<u>799,169</u>	<u>64,635</u>	<u>33,667</u>	<u>897,471</u>
Expenditures:				
Current -				
General Government	138,892	-	-	138,892
Public Safety	427,359	-	-	427,359
Public Works	148,480	29,391	30,899	208,770
Health and Welfare	3,100	-	-	3,100
Recreation and Cultural	47,708	-	-	47,708
Debt Service -				
Principal	93,969	-	-	93,969
Interest	5,283	-	-	5,283
Capital Outlay	-	-	352	352
Total Expenditures	<u>864,791</u>	<u>29,391</u>	<u>31,251</u>	<u>925,433</u>
Excess of revenues over (under) expenditures	<u>(65,622)</u>	<u>35,244</u>	<u>2,416</u>	<u>(27,962)</u>
Other Financing Sources (Uses):				
Bond/Loan Proceeds	116,000	-	-	116,000
Lease Proceeds	22,095	-	-	22,095
Transfers from other funds	38,742	-	73,847	112,589
Transfers to other funds	<u>(58,847)</u>	<u>(15,000)</u>	<u>(38,742)</u>	<u>(112,589)</u>
Total Other Financing Sources (Uses)	<u>117,990</u>	<u>(15,000)</u>	<u>35,105</u>	<u>138,095</u>
Net Change in Fund Balances	52,368	20,244	37,521	110,133
Fund Balances at beginning of year	<u>424,085</u>	<u>152,823</u>	<u>266,304</u>	<u>843,212</u>
Fund Balances at end of year	<u><u>\$ 476,453</u></u>	<u><u>\$ 173,067</u></u>	<u><u>\$ 303,825</u></u>	<u><u>\$ 953,345</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF MEMPHIS, MICHIGAN

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2008**

Net change in fund balances - total governmental funds			\$	110,133
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.				
Capital outlay		127,796		
Depreciation expense	(	97,804)		
Loss on sale/disposal of capital assets	(	<u>8,148</u>		
				21,844
Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.				
	(			3,935)
Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however has no effect on net assets.				
Principal payments on long term liabilities		93,969		
Note/Lease Proceeds	(	138,095)		
Accrued interest	(	<u>891</u>	(	45,017)
Increase in accrued sick and vacation are reported as expenditures when financial resources are used in the governmental funds				
			(	<u>383</u>)
Change in net assets of governmental activities			\$	<u><u>82,642</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF MEMPHIS, MICHIGAN

**STATEMENT OF NET ASSETS
PROPRIETARY FUND - WATER/SEWER FUND
JUNE 30, 2008**

ASSETS:

Current Assets:

Cash and cash equivalents	\$ 385,317
Accounts and interest receivable	81,209
Total Current Assets	<u>466,526</u>

Property, Plant and Equipment:

Property, plant and equipment	2,572,517
Less - accumulated depreciation	<u>(942,987)</u>
Total Property, Plant and Equipment (net of accumulated depreciation)	<u>1,629,530</u>
Total Assets	<u>2,096,056</u>

LIABILITIES:

Current Liabilities:

Accounts payable	6,730
Accrued liabilities	3,520
Accrued interest	3,418
Deposits payable	7,204
Bonds/Notes payable (current portion)	<u>106,151</u>
Total Current Liabilities	<u>127,023</u>

Long-Term Liabilities (net of current portions):

Accrued vacation and sick	4,222
Notes payable (net of current portion)	<u>472,310</u>
Total Long-Term Liabilities	<u>476,532</u>
Total Liabilities	<u>603,555</u>

NET ASSETS:

Investment in capital assets, net of related liabilities	1,051,069
Restricted - Debt service	593
Unrestricted	<u>440,839</u>
Total Net Assets	<u>\$ 1,492,501</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MEMPHIS, MICHIGAN

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND - WATER/SEWER FUND
FOR THE YEAR ENDED JUNE 30, 2008**

Operating Revenues:

Water charges	\$ 102,688
Sewage disposal charges	84,960
Other	14,010
	<u>201,658</u>

Operating Expenses:

Wages and fringes	142,415
Supplies	5,217
Utilities	10,655
Repairs and maintenance	6,833
Equipment rental	15,302
Contracted services	13,646
Insurance	2,503
Miscellaneous	4,300
Depreciation	47,834
Total Operating Expenses	<u>248,705</u>

Operating Loss	<u>(47,047)</u>
----------------	------------------

Non-Operating Revenues (Expenses):

Interest earned	14,410
Interest expense	(26,767)
Debt service fees	127,340
Total Non-Operating Revenues (Expenses)	<u>114,983</u>

Change in Net Assets	67,936
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Net Assets at beginning of year	<u>1,424,565</u>
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Net Assets at end of year	<u><u>\$ 1,492,501</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF MEMPHIS, MICHIGAN

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND - WATER/SEWER FUND
FOR THE YEAR ENDED JUNE 30, 2008**

Cash Flows From Operating Activities:

Cash receipts from customers	\$ 215,571
Cash payments to suppliers	(54,671)
Cash payments to employees	(142,833)
Net Cash Provided by Operating Activities	<u>18,067</u>

Cash Flows From Noncapital Financing Activities:

Change in due to/from other funds	<u>3,584</u>
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**Cash Flows From Capital and Related
Financing Activities:**

Bond/Note payments	(99,889)
Interest Paid on long term debt	(26,767)
Collection of debt service fees	<u>127,340</u>
Net Cash Provided by Capital and Related Financing Activities	<u>684</u>

Cash Flows From Investing Activities:

Interest earned	<u>14,410</u>
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Net Increase in Cash and Cash Equivalents for the year	36,745
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Cash and Cash Equivalents at Beginning of Year	<u>348,572</u>
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Cash and Cash Equivalents at End of Year	<u><u>\$ 385,317</u></u>
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**Reconciliation of Operating Loss to
Net Cash Provided by Operating Activities:**

Operating loss for the year	\$(47,047)
Adjustments to reconcile operating loss to net cash provided by operating activities -	
Depreciation	47,834
Loss on disposal of capital assets	645
Change in assets and liabilities:	
Receivables	6,709
Accounts payable/accrued expenses	<u>9,926</u>
Net Cash Provided by Operating Activities	<u><u>\$ 18,067</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF MEMPHIS, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
TAX RECEIVING FIDUCIARY FUND
JUNE 30, 2008

ASSETS:

Cash and cash equivalents	<u>\$ 15,845</u>
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LIABILITIES:

Undistributed taxes	<u>\$ 15,845</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF MEMPHIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

The accounting methods and procedures adopted by City of Memphis, Michigan, conform to generally accepted accounting principles as applied to governmental entities. The following Notes to the Financial Statements are an integral part of the City's Financial Statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity –

The City of Memphis, Michigan, a municipal corporation, was organized as a Township in 1837, and operates under the provisions of the constitution and general law of the State of Michigan. The Township is one of twelve (12) Townships in Macomb County and covers an area of approximately 26 square miles. The Township operates under an elected Township Board, which consists of a Supervisor, Clerk, Treasurer and two Trustees, and provides services to its more than 5,000 residents in many areas including police, fire protection and roads.

B. Government-wide and fund financial statements –

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting and financial statement presentation –

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are due. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

CITY OF MEMPHIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes, which are levied on July 1, and due on August 31, are recognized as revenue in the year due. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

General Fund – is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Street Fund – is a special revenue fund used to account for Act 51 money restricted for major streets maintenance and improvements.

The City reports the following major proprietary funds:

Water & Sewer Fund – is used to account for the treatment and distribution of water and sanitary sewer services to residential and commercial users.

Additionally, the City reports the following fund types –

Special Revenue Fund – is used to account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulation provisions or administrative actions.

Capital Projects Funds – are used to account for revenue restricted for the acquisition and/or construction of capital assets not being financed by proprietary funds.

Agency Fund – is used to account for collection and distribution of taxes. The agency fund is custodial in nature (assets equal liabilities) and do not involve measurement of results of operation.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

CITY OF MEMPHIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses for nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principle on-going operations. The principle operating revenues of the Enterprise Fund are charges to customers for sale and services. Operating expenses from the Enterprise Fund include costs of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, the unrestricted resources, as they are needed.

D. Assets, Liabilities and Net Assets or Equity –

Deposits and Investments –

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit with original maturities of three months or less from the date of acquisition and investment trust accounts. The investment trusts have the general characteristics of demand deposit accounts in that the City may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty, and are reported as cash and cash equivalents.

For the purpose of the Statement of Cash Flows presented for the Proprietary Fund Type, the City considers all highly liquid investments (including restricted assets) with original maturities of ninety days or less to be cash equivalents.

Receivables and Payables –

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

CITY OF MEMPHIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Prepaid Items –

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Property Tax Calendar –

Taxes are levied on July 1 and are payable at that time. The City bills and collects its own property taxes and also collects taxes for Macomb and St. Clair Counties, the intermediate school district, community college, library and local school district. Collections of all taxes other than City taxes and the remittance of them are accounted for in the Agency Fund.

The City is permitted by state statute to levy taxes of 14.2953 mills for general governmental services other than the payment of principal and interest on long-term debt and in unlimited amounts for the payment of principal and interest on long-term debt. The City levied 14.2953 mills for general governmental purposes.

Capital Assets –

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

As permitted by GASB Statement No. 34, the City has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to July 1, 2003.

Property, plant, and equipment is depreciated using the straight line method over the following estimated useful lives:

	<u>Primary Government</u>
Buildings and improvements	20
Utility systems	20-70
Machinery and equipment	10-40
Vehicles	10-20
Roads and sidewalks	20

CITY OF MEMPHIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Compensated Absences –

In accordance with contracts negotiated with the various employed groups of the City, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts.

Long-Term Obligations –

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financial uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity –

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Estimates –

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Information –

Annual budgets are adopted for the General and Special Revenue Funds on a basis consistent with accounting principles generally accepted in the United States of America and are not significantly different from the modified accrual basis used to reflect actual results.

CITY OF MEMPHIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - (cont'd):

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1.) Prior to June 30, the City Clerk/Treasurer submits to the City Council, a proposed operating budget for the fiscal year beginning the following July 1. The operating budgets include proposed expenditures and the means of financing them.
- 2.) A Public Hearing is conducted to obtain taxpayers' comments.
- 3.) Prior to June 30, the budget is legally enacted through passage of a motion after the public hearing. The budgets are legally enacted at the activity level, but are monitored at the account level.
- 4.) Any amendments to the budget must be approved by the City Council.
- 5.) Formal budgetary integration is employed as a management control device during the year.

Excess of Expenditures Over Appropriations –

During the year the City incurred expenditures in excess of the amount appropriated in a number of accounts. A detailed printout of each variance can be obtained/reviewed at the City Hall. As a summary the departments/activities that had expenditures in excess of the amounts appropriated are as follows:

<u>Fund Type/Function/Activity</u>	<u>Total Appropriations</u>	<u>Amount Expended</u>	<u>Budget Variance</u>
General Fund –			
Assessor	\$ 6,550	\$ 6,576	\$ 26
Police	261,513	297,763	36,250
Fire	117,148	118,978	1,830
Crossing Guard	6,822	7,078	256
Parks and Recreation	9,529	10,486	957
Debt Service – Principal	18,507	93,969	75,462
Transfers Out	53,703	58,847	5,144

NOTE 3 - DEPOSITS AND INVESTMENTS:

As of June 30, 2008, the carrying amount of the deposits and investments is as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Deposits -			
Petty Cash	\$ 149	\$ -	\$ 149
Deposits with Financial Institutions	<u>117,924</u>	<u>15,845</u>	<u>133,769</u>
Total Deposits	<u>118,073</u>	<u>15,845</u>	<u>133,918</u>
Investments -			
Investment Trust Funds	<u>1,258,834</u>	<u>-</u>	<u>1,258,834</u>
Grand Total – Reported as cash and cash equivalents	<u>\$ 1,376,907</u>	<u>\$ 15,845</u>	<u>\$ 1,392,752</u>

CITY OF MEMPHIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 3 - DEPOSITS AND INVESTMENTS - (cont'd):

The City's investment policy primary objectives are foremost safety of principle, followed by diversification, maintaining adequate liquidity and return on investment. The City's Treasurer is responsible for the investing of the City funds in accordance with the City investment policy.

Deposits –

The City's investment policy and Act 217 PA 1982, as amended, authorizes the City to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

Custodial credit risk-Deposits-is the risk that in the event of a bank failure, the City's deposit may not be returned. As an indication of the level of deposit custodial credit risk assumed by the City, as of June 30, 2008, the bank balance of the City's deposits was \$169,366 of which \$100,000 was FDIC insured with the remaining balance of \$69,366 uninsured and uncollateralized.

Investments –

Act 20 PA 1994, as amended by Act 1997 PA 1999, authorizes the City to invest surplus funds in bonds, securities and other direct obligations or repurchase agreements consisting of these financial instruments of the United States government or an agency or instrumentality of the United States; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of the political subdivisions that at the time of purchase, are rated as investment grades by not less than one standard rating service, mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools under the surplus funds investment pool act, 1982 PA 3657, 129.111 to 129.188, investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

CITY OF MEMPHIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 3 - DEPOSITS AND INVESTMENTS - (cont'd):

At June 30, 2008, the City was invested in the following types of investments:

	<u>Amount</u>	<u>Rating</u>	<u>Rating Agency</u>	<u>Average Days to Maturity</u>
Comerica Investment Trust Fund	\$ 1,197,850	A+	S & P's	23
LaSalle Bank Investment Trust Fund	60,984	AAa	S & P's	30

The investment trust funds invest primarily in repurchase agreements, commercial paper, and U.S. Treasury securities.

Custodial credit risk – is the risk that in the event of a failure of the counterparty, the City may not be able to recover the value of its investments that are in the possession of another party. The City's investment policy does not address custodial credit risk.

Interest rate risk – is the risk that the market value of securities in the City's portfolio will fall due to changes in market interest increases. The City's investment policy does not address interest rate risk.

Credit risk – is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law and the City's investment policy limits the type of investments the City can purchase. The City's investment policy does not address credit risk.

Concentration of credit risk – is the risk of loss attributed to the magnitude of the City's investments in a single issuer. The City's investment policy specifies that investments shall be diversified by security type and institution in order that potential losses on individual securities does not exceed the income generated from the remainder of the portfolio. The City's investment policy does not address concentration of credit risk.

NOTE 4 - RECEIVABLES:

Receivables in the governmental and business-type activities are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Interest and accounts	\$ 17,116	\$ 81,209
Intergovernmental –		
Federal/State	48,947	-
Local	<u>45,848</u>	<u>-</u>
	<u>\$ 111,911</u>	<u>\$ 81,209</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

CITY OF MEMPHIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 4 - RECEIVABLES – (cont'd):

	<u>Unavailable</u>	<u>Unearned</u>
General Fund		
State Shared Revenue	\$ 20,909	\$ -
CDBG Revenue	<u>-</u>	<u>43,500</u>
	<u>\$ 20,909</u>	<u>\$ 43,500</u>

NOTE 5 - CAPITAL ASSETS:

Primary Government

Capital asset activity of the primary government for the year ended June 30, 2008 was as follows:

	<u>July 1, 2007 Balance</u>	<u>Additions</u>	<u>Adjustments/ Disposals</u>	<u>June 30, 2008 Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 38,000	\$ -	\$ -	\$ 38,000
Construction in Progress	<u>-</u>	<u>11,540</u>	<u>-</u>	<u>11,540</u>
	<u>38,000</u>	<u>11,540</u>	<u>-</u>	<u>49,540</u>
Capital assets being depreciated:				
Roads and sidewalks	347,373	-	-	347,373
Vehicles	453,935	22,095	8,735	467,295
Buildings	437,377	68,406	-	505,783
Machinery and equipment	<u>525,315</u>	<u>25,755</u>	<u>2,915</u>	<u>548,155</u>
Total capital assets being depreciated	<u>1,764,000</u>	<u>116,256</u>	<u>11,650</u>	<u>1,868,606</u>
Less accumulated depreciation:				
Roads and sidewalks	46,054	18,850	-	64,904
Vehicles	214,876	26,930	1,747	240,059
Buildings	231,927	13,507	-	245,434
Machinery and equipment	<u>282,583</u>	<u>38,517</u>	<u>1,755</u>	<u>319,345</u>
Total accumulated depreciation	<u>775,440</u>	<u>97,804</u>	<u>3,502</u>	<u>869,742</u>
Total capital assets being depreciated, net	<u>988,560</u>	<u>18,452</u>	<u>8,148</u>	<u>998,864</u>
Governmental activities capital assets, net	<u>\$ 1,026,560</u>	<u>\$ 29,992</u>	<u>\$ 8,148</u>	<u>\$ 1,048,404</u>
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 11,355	\$ -	\$ -	\$ 11,355
Capital assets being depreciated:				
Utility System	2,218,557	-	-	2,218,557
Buildings and improvements	175,106	-	-	175,106
Machinery and equipment	<u>177,982</u>	<u>-</u>	<u>10,483</u>	<u>167,499</u>
	<u>2,571,645</u>	<u>-</u>	<u>10,483</u>	<u>2,561,162</u>
Less accumulated depreciation:				
Utility System	649,648	38,225	-	687,873
Buildings and improvements	111,370	2,814	-	114,184
Machinery and equipment	<u>143,973</u>	<u>6,795</u>	<u>9,838</u>	<u>140,930</u>
	<u>904,991</u>	<u>47,834</u>	<u>9,838</u>	<u>942,987</u>
Total capital assets being depreciated, net	<u>1,666,654</u>	<u>(47,834)</u>	<u>645</u>	<u>1,618,175</u>
Business activities capital assets, net	<u>\$ 1,678,009</u>	<u>\$ (47,834)</u>	<u>\$ 645</u>	<u>\$ 1,629,530</u>

CITY OF MEMPHIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 5 - CAPITAL ASSETS – (cont'd):

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
General Government	\$ 11,316
Public Safety	49,583
Public Works	28,063
Recreation and Cultural	<u>8,842</u>
	<u>\$ 97,804</u>
Business-type activities:	
Water/Sewer Fund	<u>\$ 47,834</u>

NOTE 6 - PAYABLES:

Payables in the governmental and business-type activities are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Accounts payable	\$ 13,411	\$ 6,730
Deposits payable	4,100	7,204
Accrued liabilities	<u>68,236</u>	<u>3,520</u>
	<u>\$ 85,747</u>	<u>\$ 17,454</u>

NOTE 7 - INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS:

The composition of interfund balances as of June 30, 2008:

Due To/From Other Funds –

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Local Street Fund	General Fund	<u>\$ 7,574</u>

The above represents Metro Act funds deposited into the general fund.

CITY OF MEMPHIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 7 - INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS – (cont'd):

Transfers From/To Other Funds -

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Police Equipment Replacement Fund	\$ 25,040 (1)
	Fire Equipment Replacement Fund	13,702 (1)
Local Street Fund	Major Street Fund	15,000 (2)
DPW Equipment and Replacement Fund	General Fund	20,000 (3)
Fire Equipment and Replacement Fund	General Fund	37,865 (3)
Police Equipment and Replacement Fund	General Fund	382 (3)
Clerk/Treasurer Equipment and Replacement Fund	General Fund	<u>600 (3)</u>
		<u>\$ 112,589</u>
(1) Transfer for capital outlay purchases		
(2) Transfer for operations		
(3) Transfer to set aside money for future capital purchases		

NOTE 8 - LONG-TERM LIABILITIES:

The following is a summary of changes in the long-term debt (including current portions) of the Primary Government for the year ended June 30, 2008:

	(Restated) Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due Within One Year
<u>Governmental Activities:</u>					
Library Loan	\$ 76,613	\$ -	\$ 76,613	\$ -	\$ -
Police Vehicle Purchase	-	22,095	7,840	14,255	6,900
Building Improvement Note	-	116,000	-	116,000	5,388
Police Vehicle Purchase Agreement	9,516	-	9,516	-	-
Accrued sick and vacation	<u>22,259</u>	<u>383</u>	<u>-</u>	<u>22,642</u>	<u>-</u>
Total Governmental Funds	<u>108,388</u>	<u>138,478</u>	<u>93,969</u>	<u>152,897</u>	<u>12,288</u>
<u>Business-type Activities:</u>					
2007 G.O. Refunding Bonds	585,000	-	70,000	515,000	75,000
2004 Arsenic Loan	93,350	-	29,889	63,461	31,151
Accrued Sick and Vacation	<u>3,339</u>	<u>883</u>	<u>-</u>	<u>4,222</u>	<u>-</u>
Total Business-type Activities	<u>681,689</u>	<u>883</u>	<u>99,889</u>	<u>582,683</u>	<u>106,151</u>
Total Primary Government	<u>\$ 790,077</u>	<u>\$ 139,361</u>	<u>\$ 193,858</u>	<u>\$ 735,580</u>	<u>\$ 118,439</u>

CITY OF MEMPHIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 8 - LONG-TERM LIABILITIES – (cont'd):

Significant detail regarding outstanding long-term debt (including current portions) are presented as follows:

Building Improvement Note:

During 2008 the City borrowed \$116,000 to payoff the library loan, repair the roof of City Hall and pay for building repairs at the Community Center. Payments of \$11,132 are due annually through September 2022 including interest at 4.87%. \$ 116,000

Police Vehicle Purchase Agreement:

The City entered into a lease/purchase agreement in December 2007 for the purchase of a vehicle. Payments of \$7,840 are due annually through December 2009 including interest at 6.6%. At June 30, 2008, the vehicle had a net book value of \$19,886. 14,255

2007 G.O. Water Refunding Bonds:

In 2007 the City issued \$585,000 G.O. Water Refunding Bonds, dated March 6, 2007 due in annual installments ranging from \$70,000 to \$95,000 through June 1, 2014 with interest ranging from 3.95% to 4.1% payable semi-annually. These bonds were issued to pay off the 1991 G. O. Water Revenue bonds of \$630,000. 515,000

Arsenic Plant Note:

In 2004 the City entered into a \$150,000 commercial loan to finance an Arsenic project. Annual payments of \$33,685 with interest of 3.99% are due through November 2009. 63,461

Accrued Sick and Vacation:

In accordance with contracts negotiated with the various employee groups of the City of Memphis, individual employees have a vested right upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. The dollar amount of these vested rights has been accrued on the financial statements in the Water/Sewer Fund for \$4,222 and in the governmental activities for \$22,642.

The annual debt service requirements to maturities for the long-term obligations outstanding at June 30, 2008 (excluding compensated absences) are as follows:

Year	Governmental Activities				Business-type Activities			
	Building Improvement Note		Police Vehicle		2007 G.O. Refunding Bonds		2004 Arsenic Loan	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 5,388	\$ 5,743	\$ 6,900	\$ 941	\$ 75,000	\$ 20,732	\$ 31,151	\$ 2,535
2010	5,670	5,462	7,355	485	85,000	17,770	32,310	1,299
2011	5,950	5,182	-	-	95,000	14,412	-	-
2012	6,244	4,888	-	-	90,000	10,660	-	-
2013	6,540	4,592	-	-	85,000	6,970	-	-
2014-2018	37,934	17,726	-	-	85,000	3,484	-	-
2019-2023	48,274	7,385	-	-	-	-	-	-
	<u>\$ 116,000</u>	<u>\$ 50,978</u>	<u>\$ 14,255</u>	<u>\$ 1,426</u>	<u>\$ 515,000</u>	<u>\$ 74,028</u>	<u>\$ 63,461</u>	<u>\$ 3,834</u>

CITY OF MEMPHIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 9 - COMMUNITY DEVELOPMENT BLOCK GRANT:

During the year, the City was appropriated \$22,500 Community Development Block Grant (CDBG) funding through Macomb County. At June 30, 2008, the City has \$43,500 available for future CDBG project,s which has been earmarked for street resurfacing.

Macomb County and St. Clair County pays CDBG project providers directly. The Counties maintain administrative control over the funding, monitor the programs and report the programs in the County's Single Audit report.

NOTE 10 - RESERVED/DESIGNATED FUND BALANCE:

Designated Fund Balance –

The City Council has the power to designate or set aside all or a portion of unreserved fund balance for specific purposes. The City Council has designated \$11,216 for salvage sale funds at June 30, 2008.

Restricted Net Assets –

The Water/Sewer fund has restricted net assets at June 30, 2008 of \$593 from excess collection of charges for debt payments on the Arsenic loan.

NOTE 11 - RISK MANAGEMENT NOTE:

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, injuries to employees, medical benefits provided to employees, etc. The City has purchased insurance coverage for each of these types of losses; however, the City would be responsible should the limit of coverages be exceeded. The amount of the settlement claims for the last three years has not exceeded insurance coverage.

NOTE 12 - RETIREMENT PLAN:

The City offers a SEP IRA defined contribution retirement plan to all full-time employees with at least one year of service. The City contributes four percent of covered payroll to the plan as established by City Council resolution. Employer contributions to the plan for the year ended June 30, 2008 totaled \$10,855.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MEMPHIS, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 404,349	\$ 404,349	\$ 406,867	\$ 2,518
Licenses and permits	1,450	1,450	2,122	672
Intergovernmental -				
Federal/State	112,637	112,637	121,242	8,605
Local	11,100	19,855	17,576	(2,279)
Charges for services	134,636	138,016	147,661	9,645
Fines and forfeits	2,000	2,000	3,759	1,759
Interest and rents	35,000	35,000	52,185	17,185
Other	21,500	39,210	47,757	8,547
	<u>722,672</u>	<u>752,517</u>	<u>799,169</u>	<u>46,652</u>
Expenditures:				
General Government -				
City Council	11,276	11,276	9,269	2,007
Elections	4,650	4,650	3,829	821
Assessor	6,550	6,550	6,576	(26)
Board of Review	700	700	650	50
Clerk/Treasurer	78,433	82,801	79,826	2,975
City Hall	9,770	40,920	37,947	2,973
Planning	1,180	1,180	795	385
	<u>112,559</u>	<u>148,077</u>	<u>138,892</u>	<u>9,185</u>
Public Safety -				
Inspections	2,575	3,775	3,540	235
Police department	231,298	261,513	297,763	(36,250)
Fire department	101,926	117,148	118,978	(1,830)
Crossing guard	6,822	6,822	7,078	(256)
	<u>342,621</u>	<u>389,258</u>	<u>427,359</u>	<u>(38,101)</u>
Public Works -				
Refuse collection	44,367	44,367	44,344	23
Streetlighting	18,367	18,367	17,919	448
Department of Public Works	95,909	95,909	86,217	9,692
	<u>158,643</u>	<u>158,643</u>	<u>148,480</u>	<u>10,163</u>
Health and Welfare -				
Ambulance	3,100	3,100	3,100	-
Recreational and Cultural-				
Parks and recreation	8,233	9,529	10,486	(957)
Youth Center	6,280	6,280	5,253	1,027
Community Center	150	18,554	18,445	109
Library	23,221	14,510	13,524	986
	<u>37,884</u>	<u>48,873</u>	<u>47,708</u>	<u>1,165</u>

Continued

CITY OF MEMPHIS, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Expenditures, cont.:				
Debt Service -				
Principal	\$ -	\$ 18,507	\$ 93,969	\$(75,462)
Interest	-	5,309	5,283	26
	<u>-</u>	<u>23,816</u>	<u>99,252</u>	<u>(75,436)</u>
 Total Expenditures	<u>654,807</u>	<u>771,767</u>	<u>864,791</u>	<u>(93,024)</u>
 Revenues over (under) expenditures	<u>67,865</u>	<u>(19,250)</u>	<u>(65,622)</u>	<u>(46,372)</u>
 Other Financing Sources (Uses):				
Loan Proceeds	-	48,756	116,000	67,244
Lease Proceeds	-	-	22,095	22,095
Transfers out	(53,320)	(53,703)	(58,847)	(5,144)
Transfers in	-	38,742	38,742	-
Total other financing sources (uses)	<u>(53,320)</u>	<u>33,795</u>	<u>117,990</u>	<u>84,195</u>
 Net Change in Fund Balance	14,545	14,545	52,368	37,823
 Fund Balance at beginning of year	<u>424,085</u>	<u>424,085</u>	<u>424,085</u>	<u>-</u>
 Fund Balance at end of year	<u><u>\$ 438,630</u></u>	<u><u>\$ 438,630</u></u>	<u><u>\$ 476,453</u></u>	<u><u>\$ 37,823</u></u>

Concluded

CITY OF MEMPHIS, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR STREET FUND
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Budget</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental -				
State	\$ 61,414	\$ 61,414	\$ 58,928	\$(2,486)
Interest	<u>2,000</u>	<u>2,000</u>	<u>5,707</u>	<u>3,707</u>
	<u>63,414</u>	<u>63,414</u>	<u>64,635</u>	<u>1,221</u>
Expenditures:				
Public Works -				
Administration	5,474	5,474	5,443	31
Preservation	32,490	33,990	14,355	19,635
Traffic Services	2,900	2,900	1,641	1,259
Winter Maintenance	<u>7,550</u>	<u>7,550</u>	<u>7,952</u>	<u>(402)</u>
	<u>48,414</u>	<u>49,914</u>	<u>29,391</u>	<u>20,523</u>
Revenues over expenditures	15,000	13,500	35,244	21,744
Other Financing Uses:				
Transfers out	<u>(15,000)</u>	<u>(15,000)</u>	<u>(15,000)</u>	<u>-</u>
Net Change in Fund Balance	-	(1,500)	20,244	21,744
Fund Balance at beginning of year	<u>152,823</u>	<u>152,823</u>	<u>152,823</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 152,823</u></u>	<u><u>\$ 151,323</u></u>	<u><u>\$ 173,067</u></u>	<u><u>\$ 21,744</u></u>

OTHER SUPPLEMENTARY INFORMATION

CITY OF MEMPHIS, MICHIGAN
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2008

	Special Revenue Fund	Capital Projects Funds		
	Local Street	Police Equipment and Replacement	Fire Equipment and Replacement	DPW Equipment and Replacement
ASSETS				
Cash and cash equivalents	\$ 98,667	\$ 410	\$ 149,072	\$ 41,544
Due from other governmental units - State	2,970	-	-	-
Due from other funds	7,574	-	-	-
Total Assets	<u>\$ 109,211</u>	<u>\$ 410</u>	<u>\$ 149,072</u>	<u>\$ 41,544</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ 225	\$ -	\$ -	\$ -
Accrued liabilities	212	-	-	-
Total Liabilities	<u>437</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance:				
Reserved - Capital Projects	-	410	149,072	41,544
Unreserved - Undesignated	108,774	-	-	-
Total Fund Balance	<u>108,774</u>	<u>410</u>	<u>149,072</u>	<u>41,544</u>
Total Liabilities and Fund Balance	<u>\$ 109,211</u>	<u>\$ 410</u>	<u>\$ 149,072</u>	<u>\$ 41,544</u>

<u>Clerk/Treasurer Equipment and Replacement</u>	<u>Library Equipment and Replacement</u>	<u>Total</u>
\$ 698	\$ 3,327	\$ 293,718
-	-	2,970
<u>-</u>	<u>-</u>	<u>7,574</u>
<u><u>\$ 698</u></u>	<u><u>\$ 3,327</u></u>	<u><u>\$ 304,262</u></u>
\$ -	\$ -	\$ 225
<u>-</u>	<u>-</u>	<u>212</u>
<u>-</u>	<u>-</u>	<u>437</u>
698	3,327	195,051
<u>-</u>	<u>-</u>	<u>108,774</u>
<u>698</u>	<u>3,327</u>	<u>303,825</u>
<u><u>\$ 698</u></u>	<u><u>\$ 3,327</u></u>	<u><u>\$ 304,262</u></u>

CITY OF MEMPHIS, MICHIGAN

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2008

	Special Revenue Fund	Capital Projects Funds		
	Local Street	Police Equipment and Replacement	Fire Equipment and Replacement	DPW Equipment and Replacement
Revenues:				
Intergovernmental-				
State	\$ 22,102	\$ -	\$ -	\$ -
Interest	3,821	577	5,632	1,379
Total Revenues	<u>25,923</u>	<u>577</u>	<u>5,632</u>	<u>1,379</u>
Expenditures:				
Current -				
Public Works	30,899	-	-	-
Capital Outlay	-	-	352	-
Total Expenditures	<u>30,899</u>	<u>-</u>	<u>352</u>	<u>-</u>
Revenues over (under) expenditures	<u>(4,976)</u>	<u>577</u>	<u>5,280</u>	<u>1,379</u>
Other Financing Sources (Uses):				
Transfers In	15,000	382	37,865	20,000
Transfers Out	-	(25,040)	(13,702)	-
Total Other Financing Sources (Uses)	<u>15,000</u>	<u>(24,658)</u>	<u>24,163</u>	<u>20,000</u>
Net change in fund balances	10,024	(24,081)	29,443	21,379
Fund Balances at beginning of year	<u>98,750</u>	<u>24,491</u>	<u>119,629</u>	<u>20,165</u>
Fund Balances at end of year	<u><u>\$ 108,774</u></u>	<u><u>\$ 410</u></u>	<u><u>\$ 149,072</u></u>	<u><u>\$ 41,544</u></u>

<u>Clerk/Treasurer Equipment and Replacement</u>	<u>Library Equipment and Replacement</u>	<u>Total</u>
\$ -	\$ -	\$ 22,102
19	137	11,565
<u>19</u>	<u>137</u>	<u>33,667</u>
-	-	30,899
-	-	352
<u>-</u>	<u>-</u>	<u>31,251</u>
19	137	2,416
600	-	73,847
-	-	(38,742)
<u>600</u>	<u>-</u>	<u>35,105</u>
619	137	37,521
79	3,190	266,304
<u>\$ 698</u>	<u>\$ 3,327</u>	<u>\$ 303,825</u>

CITY OF MEMPHIS, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
LOCAL STREET FUND
FOR THE YEAR ENDED JUNE 30, 2008**

	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental -				
State	\$ 18,881	\$ 18,881	\$ 22,102	\$ 3,221
Interest	1,000	1,000	3,821	2,821
Total Revenues	<u>19,881</u>	<u>19,881</u>	<u>25,923</u>	<u>6,042</u>
Expenditures:				
Public Works -				
Administration	1,369	1,369	1,369	-
Construction	25,000	25,000	11,540	13,460
Preservation	10,809	10,809	9,321	1,488
Traffic Services	650	650	423	227
Winter Maintenance	7,350	7,350	8,246	(896)
Total Expenditures	<u>45,178</u>	<u>45,178</u>	<u>30,899</u>	<u>14,279</u>
Revenues under expenditures	(25,297)	(25,297)	(4,976)	20,321
Other Financing Sources:				
Transfers in	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	<u>-</u>
Net Change in Fund Balance	(10,297)	(10,297)	10,024	20,321
Fund Balance at beginning of year	<u>98,750</u>	<u>98,750</u>	<u>98,750</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 88,453</u>	<u>\$ 88,453</u>	<u>\$ 108,774</u>	<u>\$ 20,321</u>

CITY OF MEMPHIS, MICHIGAN

TAX RECEIVING AGENCY FUND

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2008**

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008
Assets:				
Cash	<u>\$ 14,419</u>	<u>\$ 1,165,606</u>	<u>\$ 1,164,180</u>	<u>\$ 15,845</u>
Liabilities:				
Undistributed taxes	<u>\$ 14,419</u>	<u>\$ 1,165,606</u>	<u>\$ 1,164,180</u>	<u>\$ 15,845</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the City Council
City of Memphis, Michigan

We have audited the financial statements of the governmental activities of the City of Memphis, Michigan as of and for the year ended June 30, 2008, and have issued our report thereon dated September 3, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Memphis, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. There were no significant deficiencies considered to be material weaknesses.

The following deficiencies in internal control are considered to be significant deficiencies:

Preparation of Financial Statements In Accordance with Generally Accepted Accounting Principles.

Management routinely prepares internal financial information to assess operations and the financial position of the City on an ongoing basis. Although the internal financial information is useful to management, it is not presented in accordance with generally accepted accounting principles. The City contracts with us, the auditors, to prepare adjustments to convert the financial statements from

a modified cash basis to the modified accrual or accrual basis, to record the information necessary for the GASB 34 adjustments, and to draft the financial statements, including all necessary notes, in accordance with generally accepted accounting principles. (During our audit we proposed various audit entries, some of which were significant to the financial statements.)

This is considered to be a control deficiency since errors could occur in the preparation of the financial statements that would result in material deviation from generally accepted accounting principles and the City would not be in a position to detect them.

The billing and receipting functions should be reviewed.

During the audit we noted that the same individual who is responsible for processing and adjusting the utility bills also has the ability to accept payments on the accounts. Allowing one person to process bills, adjust bills, and receipt payments creates the opportunity for discrepancies.

While we understand the constraints of a small office, we would recommend that any adjustments to the utility bills be approved by either two people or by someone independent of the billing/receipting functions. We would also recommend that the utility billing system be interfaced with the general ledger and the utility billing receivable reports be reconciled to the balance outstanding on the general ledger monthly.

We would further recommend that all voided receipts be reviewed and approved by either two people or by someone independent of the receipting function.

The Tax Account Activity should be recorded on the general ledger.

Currently the Treasurer maintains a ledger of the activity in the tax account, however, the activity is not recorded on the City's general ledger. To increase controls over this area we would recommend that the activity of the tax fund – receipts received and disbursements made – be recorded on the general ledger and follow the same process for other receipts and disbursements of the City.

The cash and investment accounts should be reconciled to the general ledger accounts.

During the audit we noted that the process for reconciling the cash and investment accounts did not include a comparison to the general ledger balances for the last few months of the year. The balances for the cash accounts were compared to the Treasurer's balances, but not the general ledger accounts.


Because the general ledger reports are used for revenue and expense reports, and the reconciliation of the cash accounts is an important tool in ensuring the accuracy of these reports, we recommend the City's reconciliation routine include comparing the balances on the general ledger to the reconciled bank statement and the investment statement.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Memphis' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Memphis in a separate letter dated September 3, 2008.

This report is intended solely for the information and use of management, the City of Memphis' City Council, and others within the City, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Stewart, Beauvois & Whipple".

Certified Public Accountants,

September 3, 2008



AUDIT COMMUNICATION LETTER

September 3, 2008

To the City Council
The City of Memphis
St. Clair County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Memphis for the year ended June 30, 2008, and have issued our report thereon dated September 3, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City of Memphis. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Planned Scope and Timing of Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Accounting Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Memphis are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2008. We noted no transaction entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate for depreciation. Management estimates for this item is based on historical data and estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management:

- An entry to record the other side of a transfer

Assistance with GASB 34 Presentation

As a result of our assistance with the GASB 34 presentation, we proposed several entries to the June 30, 2008 account balances to reflect the difference between the Governmental Fund and the Government-wide financial statements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 3, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In addition to the Report on Internal Control, we noted other items that, although are not considered significant deficiencies, could improve controls, the operational efficiency and/or compliance with laws and regulations. These items are discussed in Attachment A.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the City Council and management of the City of Memphis and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script that reads "Stewart, Beauvais & Whipple".

Stewart, Beauvais & Whipple

Attachment A

The following is a list of items that are not considered significant deficiencies, however, are items that could improve controls, the operational efficiency of the accounting department and or compliance with laws and regulations:

The City should consider modifying its investment policy.

During 2006, GASB No. 40 became effective for all governmental units. The Statement requires that the governmental unit disclose additional information regarding the types of investments held, length of maturity, security's rating, any limitation on the amounts that can be invested with any one financial institution or type of investment, etc. In addition, it discusses four types of risk: custodial credit risk, interest rate risk, credit risk and concentration of credit risk. (See Note 3 to the annual financial statements.)

We recommend that the current City investment policy be reviewed and modified to address each type of risk. During this process the Council should consider whether they want to limit the amount and/or percentage of cash and investment that can be invested with any financial institution since the City is only insured for \$100,000 with each financial institution.

The Fire Department bank account activity should either be included in the general ledger of the City or a separate nonprofit corporation established.

Currently the Fire Department raises funds through fundraising and donations for the purchase of various supplies for the firemen and the Fire Department. This activity is currently not being reported through the City, but is recorded in a bank account held by the Fire Department using the City's employer identification number.

We recommend that the Fire Department consider either establishing a separate nonprofit organization or recording the transactions of the bank account through the City office. If a separate nonprofit organization is established, then the activity of the account would be evaluated each year for inclusion as a component unit in the City's financial report in accordance with GASB Statement No. 39.

The minutes of the City Council should include either the check range or the dollar amount of the disbursements being reviewed and approved.

During the audit we noted that the City Council reviews and approves all disbursements at each meeting by noting the approval of the monthly disbursement report. As part of our audit, we agree certain checks issued for inclusion in the disbursements approved by the City Council. However, because the minutes do not reflect either the check range or the total amount of the disbursements being approved, we were unable to verify the Council's approval.

To further enhance the controls setup by the City, we recommend the Council minutes reflect either the check sequence or the total dollar amount being approved. It is our understanding that the City Council has since made this change.

The gallons of water billed to customers should be compared to the gallons of water pumped through the system.

As part of the audit, we compared the gallons of water billed to customers in the billing registers to the gallons of water pumped through the water system as reported by the Department of Public Works. This comparison showed a difference of approximately 16% between the amount pumped and the amount billed. During the prior year, the loss percentage was about 8% of gallons pumped. While we understand the loss attributable to flushing of the lines, and the usage by the fire department, this percentage of loss should remain fairly consistent between years.

We recommend the City review this data regularly to ensure that water is not leaving the City system unexpectedly.